



Legislative Audit Division

State of Montana

Report to the Legislature

October 2006

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Department of Public Service Regulation

This report contains an unqualified Independent Auditor's Report on the department's financial schedules and does not contain any recommendations to the department.

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

06-26

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

October 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit of the Department of Public Service Regulation (department) for the two fiscal years ended June 30, 2006. The objectives of our audit included determining whether the department's financial schedules presented fairly its results of operations and changes in fund balance for each of the fiscal years ended June 30, 2006, and June 30, 2005, assessing the department's compliance with applicable laws and regulations, and obtaining an understanding of the department's control system and, if appropriate, making recommendations for improvement.

The department was created by the Executive Reorganization Act of 1971 and operates under the direction of the Public Service Commission (commission). The commission consists of five voting members who are elected on a district basis and serve a term of four years. After each general election, one of the commissioners is elected by the commission to serve as chair until the next general election. The chairman exercises authority on behalf of the commissioners.

The department's responsibility is to assure the public receives safe, adequate, and economical utility and transportation service at just and reasonable rates. The department, which was authorized 39 full-time equivalents, is responsible for the regulation of public utilities, motor carriers, railroads, and pipelines within the state. It also performs certain safety inspections of those activities, except for motor carriers, which are inspected by other state and federal agencies.

This report does not contain any recommendations to the department. The prior financial-compliance audit report, issued for the two fiscal years ended June 30, 2004, contained two recommendations both of which were fully implemented.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We issued an unqualified opinion, which means the reader can rely on the presented information. The department's response to this report is on page B-1.

We thank the commission and its staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Elected, Appointed and Administrative Officials

Public Service Commission

	<u>Term Expires</u>
Greg Jergeson, Chair	January 2007
Brad Molnar, Vice Chair	January 2009
Doug Mood	January 2009
Tom Schneider	January 2007
Bob Raney	January 2009

Administrative Officials

Wayne Budt, Administrator,
Transportation and Centralized Services Division

Robin McHugh, Administrator, Legal Division

Kate Whitney, Administrator, Utility Division

For additional information concerning the Department of Public
Service Regulation programs contact:

Wayne Budt, Administrator,
Transportation and Centralized Services Division
Public Service Regulation
PO Box 202601
Helena MT 59620-2601
Phone: (406) 444-6195
wbudt@mt.gov

Members of the audit staff involved in this audit were
Laurie Barrett, Jeane Carstensen-Garrett, Jennifer Erdahl,
Delsi Plummer, and Jeff Tamblyn.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Service Regulation for each of the fiscal years ended June 30, 2006, and June 30, 2005. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Public Service Regulation for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 23, 2006

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund
FUND BALANCE: July 1, 2005	\$ <u>(461)</u>	\$ <u>351,966</u>	\$ <u>(1,344)</u>
ADDITIONS			
Budgeted Revenues & Transfers-In		20,855	16,387
NonBudgeted Revenues & Transfers-In		5,190	
Prior Year Revenues & Transfers-In Adjustments	(180)		
Direct Entries to Fund Balance	<u>(1,156)</u>	<u>3,103,016</u>	<u>15</u>
Total Additions	<u>(1,336)</u>	<u>3,129,061</u>	<u>16,402</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out		2,900,550	16,445
NonBudgeted Expenditures & Transfers-Out		(1,114)	
Prior Year Expenditures & Transfers-Out Adjustments		<u>(21,854)</u>	
Total Reductions		<u>2,877,582</u>	<u>16,445</u>
FUND BALANCE: June 30, 2006	\$ <u><u>(1,797)</u></u>	\$ <u><u>603,445</u></u>	\$ <u><u>(1,387)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>
FUND BALANCE: July 1, 2004	\$ <u>(5,892)</u>	\$ <u>(88,179)</u>	\$ <u>1,405</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	359,955	27,945	12,156
NonBudgeted Revenues & Transfers-In	2,453	2,870	7
Prior Year Revenues & Transfers-In Adjustments		(2,027)	
Direct Entries to Fund Balance	<u>(356,977)</u>	<u>3,202,267</u>	<u>35,152</u>
Total Additions	<u>5,431</u>	<u>3,231,055</u>	<u>47,315</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out		2,791,056	50,064
Prior Year Expenditures & Transfers-Out Adjustments		<u>(146)</u>	
Total Reductions		<u>2,790,910</u>	<u>50,064</u>
FUND BALANCE: June 30, 2005	\$ <u><u>(461)</u></u>	\$ <u><u>351,966</u></u>	\$ <u><u>(1,344)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits		\$ 7,950		\$ 7,950
Taxes		148		148
Charges for Services	\$ (180)	15,947		15,767
Fines, Forfeits and Settlements		2,000		2,000
Federal			\$ 16,387	16,387
Total Revenues & Transfers-In	(180)	26,045	16,387	42,252
Less: Nonbudgeted Revenues & Transfers-In		5,190		5,190
Prior Year Revenues & Transfers-In Adjustments	(180)			(180)
Actual Budgeted Revenues & Transfers-In	0	20,855	16,387	37,242
Estimated Revenues & Transfers-In		28,175	14,475	42,650
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (7,320)	\$ 1,912	\$ (5,408)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits		\$ 1,950		\$ 1,950
Charges for Services		(9,270)		(9,270)
Federal			\$ 1,987	1,987
Federal Indirect Cost Recoveries	\$	(75)	(75)	(75)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (7,320)	\$ 1,912	\$ (5,408)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 5,270			\$ 5,270
Taxes		\$ (1,865)	\$ 7	(1,858)
Charges for Services	2,453	14,225		16,678
Fines, Forfeits and Settlements	354,685	15,020		369,705
Miscellaneous		1,408		1,408
Federal			12,156	12,156
Total Revenues & Transfers-In	<u>362,408</u>	<u>28,788</u>	<u>12,163</u>	<u>403,359</u>
Less: Nonbudgeted Revenues & Transfers-In	2,453	2,870	7	5,330
Prior Year Revenues & Transfers-In Adjustments		(2,027)		(2,027)
Actual Budgeted Revenues & Transfers-In	<u>359,955</u>	<u>27,945</u>	<u>12,156</u>	<u>400,056</u>
Estimated Revenues & Transfers-In	<u>360,935</u>	<u>40,575</u>	<u>13,968</u>	<u>415,478</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (980)</u>	<u>\$ (12,630)</u>	<u>\$ (1,812)</u>	<u>\$ (15,422)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ (730)			\$ (730)
Charges for Services		\$ (12,151)		(12,151)
Fines, Forfeits and Settlements	(250)	(479)		(729)
Federal			\$ (1,737)	(1,737)
Federal Indirect Cost Recoveries			(75)	(75)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (980)</u>	<u>\$ (12,630)</u>	<u>\$ (1,812)</u>	<u>\$ (15,422)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Public Service Regulation Program</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	
Personal Services	
Salaries	\$ 1,832,549
Employee Benefits	505,556
Total	<u>2,338,105</u>
Operating Expenses	
Other Services	71,015
Supplies & Materials	70,732
Communications	49,066
Travel	63,500
Rent	203,615
Repair & Maintenance	117
Other Expenses	49,223
Total	<u>507,268</u>
Equipment & Intangible Assets	
Intangible Assets	48,654
Total	<u>48,654</u>
Total Expenditures & Transfers-Out	<u>\$ 2,894,027</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
State Special Revenue Fund	\$ 2,877,582
Federal Special Revenue Fund	16,445
Total Expenditures & Transfers-Out	<u>2,894,027</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(1,114)
Prior Year Expenditures & Transfers-Out Adjustments	(21,854)
Actual Budgeted Expenditures & Transfers-Out	<u>2,916,995</u>
Budget Authority	3,120,052
Unspent Budget Authority	<u>\$ 203,057</u>
UNSPENT BUDGET AUTHORITY BY FUND	
State Special Revenue Fund	\$ 200,820
Federal Special Revenue Fund	2,237
Unspent Budget Authority	<u>\$ 203,057</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Public Service Regulation Program</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	
Personal Services	
Salaries	\$ 1,751,558
Employee Benefits	485,220
Total	<u>2,236,778</u>
Operating Expenses	
Other Services	229,853
Supplies & Materials	12,345
Communications	50,301
Travel	61,151
Rent	199,945
Repair & Maintenance	1,553
Other Expenses	49,048
Total	<u>604,196</u>
Total Expenditures & Transfers-Out	<u>\$ 2,840,974</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

State Special Revenue Fund	\$ 2,790,910
Federal Special Revenue Fund	50,064
Total Expenditures & Transfers-Out	<u>2,840,974</u>
Less: Prior Year Expenditures & Transfers-Out Adjustments	<u>(146)</u>
Actual Budgeted Expenditures & Transfers-Out	2,841,120
Budget Authority	3,418,577
Unspent Budget Authority	<u>\$ 577,457</u>

UNSPENT BUDGET AUTHORITY BY FUND

State Special Revenue Fund	\$ 575,655
Federal Special Revenue Fund	1,802
Unspent Budget Authority	<u>\$ 577,457</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana Department of Public Service Regulation

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2006

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

General Fund – to account for all financial resources except those required to be accounted for in another fund.

Notes to the Financial Schedules

State Special Revenue Fund – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include a fund for the gross operating revenue tax collected by the Department of Revenue and a fund for collection of fees for Qwest Performance Monitoring.

Federal Special Revenue Fund – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Federal Natural Gas Safety funds and Jobs and Growth Tax Relief Reconciliation Act funds.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2006, and June 30, 2005.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General Fund, State Special Revenue, and Federal Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The direct entries in the General Fund relate to the Northwest Energy Bankruptcy settlement in fiscal year 2004-05. The direct entries in the State Special Revenue Fund relate to utility gross operating taxes collected by the Department of Revenue in the amount of \$3,195,448 in fiscal year 2004-05 and \$3,102,804 in fiscal year 2005-06. The direct entries in the Federal Special Revenue Fund include federal funding received through the Jobs and Growth Tax Relief Reconciliation Act in fiscal year 2004-05 in the amount of \$37,828.

4. Fines, Forfeits and Settlements

The amount of Fines, Forfeits and Settlements in the General Fund in fiscal year 2004-05 of \$354,685 is due to the department receiving

reimbursement expenses related to the Northwestern Energy Bankruptcy.

**5. Unspent Budget Authority
by Fund and Other
Services**

The State Special Revenue Fund balance of \$575,655 in unspent budget authority in fiscal year 2004-05 is primarily due to a restricted biennial appropriation of \$500,000 in House Bill 2 of the 2003 Legislative Session. It was an appropriation to fund the default electricity supply procurement process described in Senate Bill 247 of the 2003 Legislative Session. Only a small portion of the funding for this project materialized in fiscal year 2004-05 and none in fiscal year 2005-06 which contributed to the decrease in other services from fiscal year 2004-05 to 2005-06. Also contributing to the decrease was the Qwest Performance Monitoring project decreasing between fiscal year 2004-05 to 2005-06.



Montana Public Service Commission

Greg Jergeson, Chairman
Brad Molnar, Vice-Chairman
Doug Mood
Bob Raney
Thomas J. Schneider

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September 20, 2006

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LEGISLATIVE AUDIT DIV.

Mr. Scott Seacat
Office of the Legislative Auditor
State Capitol Building, Room 160
PO Box 211715
Helena, Montana 59620-1705

Dear Mr. Seacat

We have reviewed your Financial Compliance Audit completed for the two fiscal years ending June 30, 2006, and have no comments or exceptions to your report.

As chairman, I, on behalf of the Commission and staff, would like to take this opportunity to thank you and your staff of professional auditors for your hard work and careful examination during this audit. We always look upon the audit process as an opportunity to improve our operations and performance, and this year was no exception.

The PSC would also like to thank the Legislative Audit Committee for helping us during the 2005 session secure some necessary legislative changes identified in our previous audit.

Sincerely,

A handwritten signature in cursive script that reads "Greg Jergeson".

Greg Jergeson, Chairman
Montana Public Service Commission